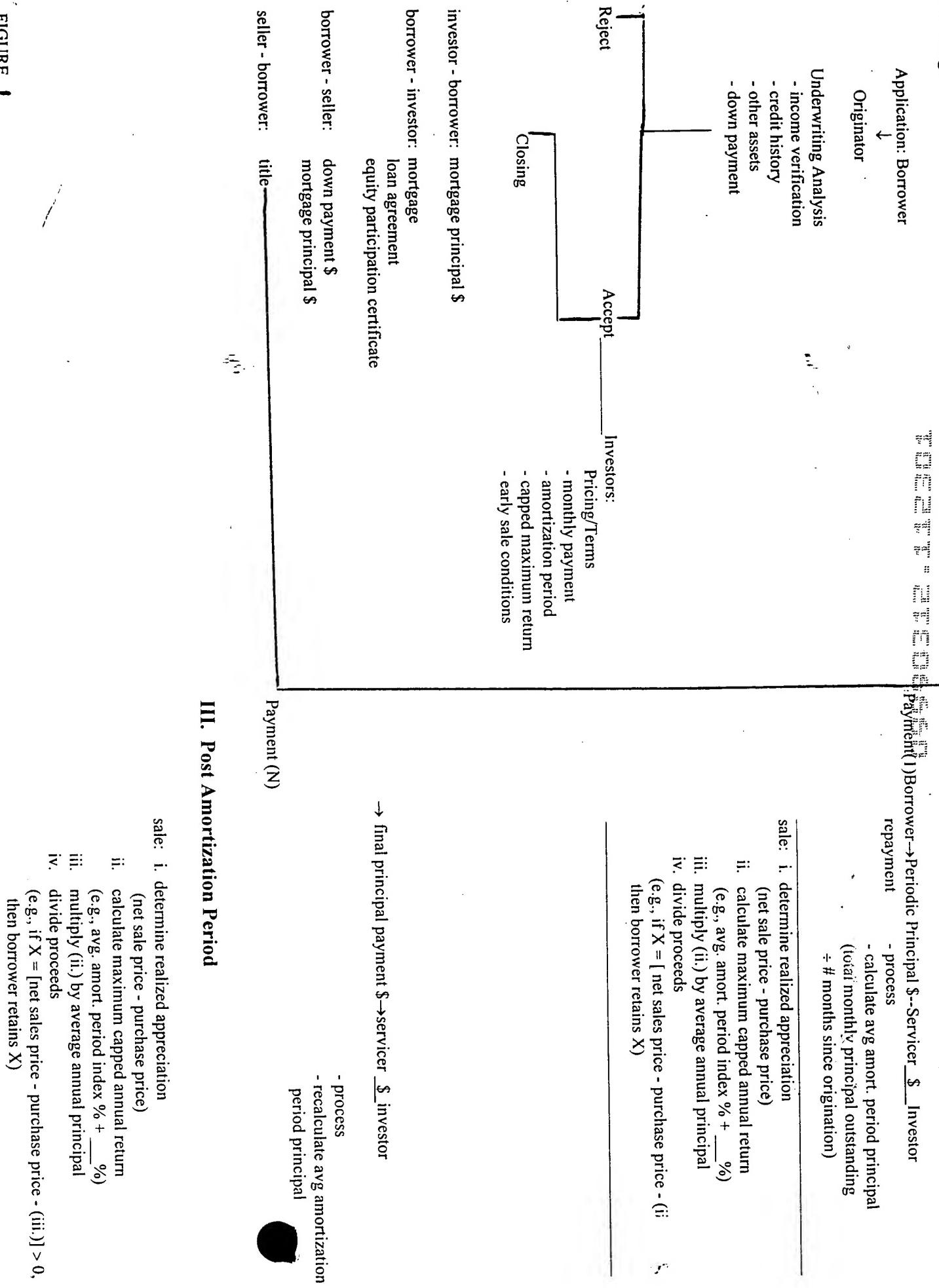


I. Origination



II. Amortization Period - months 1 through N

Payment(1) Borrower → Periodic Principal \$ - Servicer \$ Investor

ower→Periodic Principal \$--Service \$ Investor
repayment - process

- calculate avg amort. period principal
(total monthly principal outstanding)

Underwriting Analysis

- credit history
 - other assets
 - down payment

- Underwriting Analysis
 - income verification
 - credit history
 - other assets
 - down payment

(e.g., if $X = [$ net sales price - purchase price - ($\frac{1}{2}$ interest + taxes) $]$, then borrower retains X)

investor - borrower: mortgage principal \$

borrower - investor: mortgage

**loan agreement
equity participation certificate**

borrower - seller: down payment \$ mortgage principal \$

seller - borrower:

III. Post Amortization Period

sale:

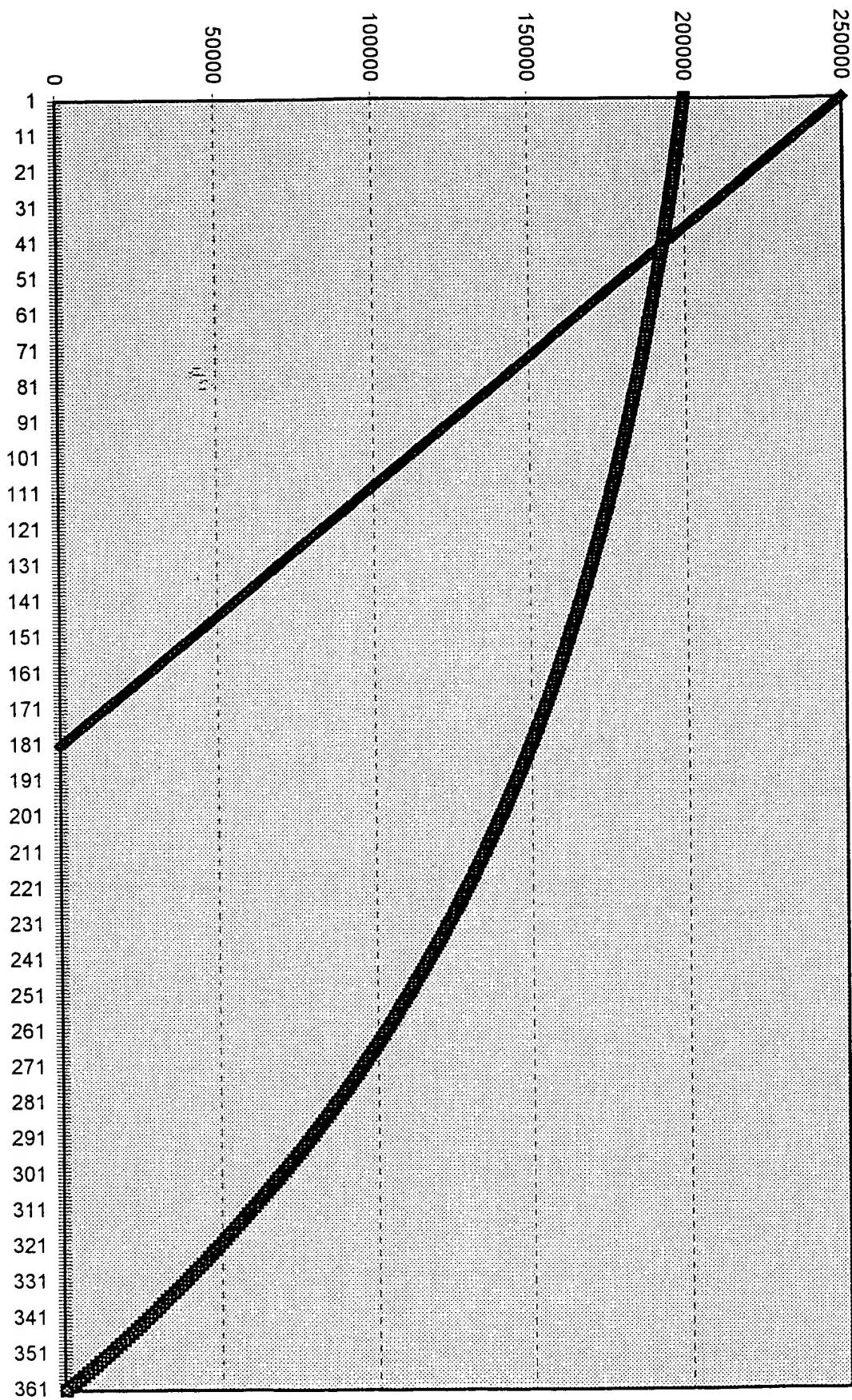
- i. determine realized appreciation
(net sale price - purchase price)
- ii. calculate maximum capped annual return
(e.g., avg. amort. period index % + $\frac{\%}{\text{annual periods}}$)
- iii. multiply (ii.) by average annual principal
- iv. divide proceeds

(e.g., if $X = [\text{net sales price} - \text{purchase price} - (\text{iii.})] > 0$,
then borrower retains X)

FIGURE 2

Figure 3: Principal Amortization - Equity Participation Mortgage v. 30-yr Fixed Rate @ 7.28%

Original Principal Amounts with Same Monthly Payment



FIRS(OR) 3

Median Sales Price of Existing Single Family Homes: 1968 - 1996

Source: National Association of Realtors, Existing Home Sales Survey

